

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name BAYLISS PUBLIC LIBRARY	County CHIPPEWA
Fiscal Year End 6/30/2006	Opinion Date 09/08/2006	Date Audit Report Submitted to State 12/20/2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☒ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number 231-627-3143		
Street Address 902 S. HURON STREET, PO BOX 250		City CHEBOYGAN	State MI	Zip 49721
Authorizing CPA Signature 		Printed Name ANNETTE EUSTICE, CPA, CGFM		License Number 1101019667

**BAYLISS PUBLIC LIBRARY**

**A COMPONENT UNIT OF THE  
CITY OF SAULT STE. MARIE**

**BASIC FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2006**

# BAYLISS PUBLIC LIBRARY

## TABLE OF CONTENTS

---

	<u>PAGE</u>
<b>Independent Auditors' Report</b>	<b>1-2</b>
<b>Basic Financial Statements</b>	
<b>Government-wide Financial Statements</b>	
Statement of Net Assets	3
Statement of Activities	4
<b>Fund Financial Statements</b>	
Balance Sheet – Governmental Funds	5
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	6
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	7
<b>Notes to Financial Statements</b>	8-15
<b>Supplementary Information</b>	
Balance Sheet – General Fund by Operation	16
Statement of Revenues, Expenditures and Changes in Fund Balances – General Fund – by Operation	17
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund General Operations	18
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund Branch Operations	19
<b>Internal Control and Compliance</b>	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	20-21



## INDEPENDENT AUDITORS' REPORT

September 8, 2006

Board of Trustees  
Bayliss Public Library  
Sault Ste. Marie, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of **Bayliss Public Library** (the "Library"), a component unit of the City of Sault Ste. Marie as of and for the year ended June 30, 2006, which collectively comprise the Library's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Library as of June 30, 2006, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2006, on our consideration of the Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. The Library has not presented a Management's Discussion and Analysis.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Library's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, prominent 'L' at the beginning.

## **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

## **FUND FINANCIAL STATEMENTS**

**BAYLISS PUBLIC LIBRARY**  
**A COMPONENT UNIT OF THE**  
**CITY OF SAULT STE. MARIE, MICHIGAN**

**STATEMENT OF NET ASSETS**  
**GOVERNMENTAL ACTIVITIES**

**JUNE 30, 2006**

---

**Assets**

Cash and cash equivalents	\$ 459,633
Investments	113,529
Restricted investments	159,923
Accounts receivable, net	25,208
Prepaid expenses	303
Capital assets not being depreciated	22,822
Capital assets, net of depreciation	<u>241,402</u>

**Total assets**

**1,022,820**

**Liabilities**

Accounts payable	48,194
Noncurrent liabilities	
Compensated absences	<u>20,180</u>

**Total liabilities**

**68,374**

**Net assets**

Invested in capital assets	264,224
Restricted for endowments	159,923
Unrestricted	<u>530,299</u>

**Total net assets**

**\$ 954,446**

The accompanying notes are an integral part of these financial statements.



**BAYLISS PUBLIC LIBRARY**

**A COMPONENT UNIT OF THE  
CITY OF SAULT STE. MARIE, MICHIGAN**

**STATEMENT OF ACTIVITIES  
GOVERNMENTAL ACTIVITIES**

**FOR THE YEAR ENDED JUNE 30, 2006**

---

<b>Program expenses</b>	
<b>Recreation and culture</b>	<b>\$ 598,548</b>
<b>Program revenues</b>	
Charges for services	75,197
Penal fines	204,381
Refunds and reimbursements	119,937
State sources	22,113
Donations	11,312
Grants	3,808
Other	6,999
	<hr/>
<b>Total program revenues</b>	<b>443,747</b>
	<hr/>
<b>Net program expenses</b>	<b>(154,801)</b>
	<hr/>
<b>General revenues</b>	
Local sources	192,000
Interest earnings	20,978
	<hr/>
<b>Total general revenues</b>	<b>212,978</b>
	<hr/>
<b>Change in net assets</b>	<b>58,177</b>
	<hr/>
Net assets, beginning of year	896,269
	<hr/>
<b>Net assets, end of year</b>	<b>\$ 954,446</b>
	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

## **BASIC FINANCIAL STATEMENTS**

**BAYLISS PUBLIC LIBRARY**  
**A COMPONENT UNIT OF THE**  
**CITY OF SAULT STE. MARIE, MICHIGAN**

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**

**JUNE 30, 2006**

	<b>General Fund</b>	<b>Permanent Funds Bayliss Trust</b>	<b>Seal Trust</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 459,633	\$ -	\$ -	\$ 459,633
Investments	113,529	-	-	113,529
Restricted investments	-	63,805	96,118	159,923
Accounts receivable, net	25,208	-	-	25,208
Due from other funds	22,609	-	-	22,609
Prepaid expenditures	303	-	-	303
<b>Total assets</b>	<b>\$ 621,282</b>	<b>\$ 63,805</b>	<b>\$ 96,118</b>	<b>\$ 781,205</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 48,194	\$ -	\$ -	\$ 48,194
Due to other funds	22,609	-	-	22,609
<b>Total liabilities</b>	<b>70,803</b>	<b>-</b>	<b>-</b>	<b>70,803</b>
<b>Fund balance</b>				
Reserved for endowments	-	63,805	96,118	159,923
Unreserved and undesignated	550,479	-	-	550,479
<b>Total fund balance</b>	<b>550,479</b>	<b>63,805</b>	<b>96,118</b>	<b>710,402</b>
<b>Total liabilities and fund balance</b>	<b>\$ 621,282</b>	<b>\$ 63,805</b>	<b>\$ 96,118</b>	<b>\$ 781,205</b>
<b>Reconciliation of fund balance above to the statement of net assets</b>				<b>\$ 710,402</b>
Amounts reported in the statement of net assets are different because				
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.				
Add - capital assets (net)				264,224
Certain liabilities, such as accrued compensated absences are not due and payable in the current period and therefore are not reported in the funds.				
Deduct - compensated absences payable				(20,180)
<b>Net assets of governmental activities</b>				<b>\$ 954,446</b>

The accompanying notes are an integral part of these financial statements

# BAYLISS PUBLIC LIBRARY

## A COMPONENT UNIT OF THE CITY OF SAULT STE. MARIE, MICHIGAN

### STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2006

	General Fund	Permanent Funds Bayliss Trust	Seal Trust	Total Governmental Funds
<b>Revenues</b>				
Local sources	\$ 192,000	\$ -	\$ -	\$ 192,000
Penal fines	204,381	-	-	204,381
Refunds and reimbursements	119,937	-	-	119,937
Charges for services	75,197	-	-	75,197
State sources	22,113	-	-	22,113
Interest earnings	15,904	1,837	3,237	20,978
Donations	11,312	-	-	11,312
Grants	3,808	-	-	3,808
Other	6,999	-	-	6,999
<b>Total revenues</b>	<b>651,651</b>	<b>1,837</b>	<b>3,237</b>	<b>656,725</b>
<b>Expenditures</b>				
Recreational and culture	619,236	-	-	619,236
<b>Revenues over expenditures</b>	<b>32,415</b>	<b>1,837</b>	<b>3,237</b>	<b>37,489</b>
Fund balance, beginning of year	518,064	61,968	92,881	672,913
<b>Fund balance, end of year</b>	<b>\$ 550,479</b>	<b>\$ 63,805</b>	<b>\$ 96,118</b>	<b>\$ 710,402</b>
Reconciliation of the statement of revenues, expenditures and changes in fund balance to the statement of activities				
Net change in fund balance				\$ 37,489
Amounts reported in the statement of activities are different because				
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.				
Add - capital asset additions				59,639
Deduct - depreciation expense				(38,412)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.				
Deduct - increase in compensated absences				(539)
<b>Change in net assets</b>				<b>\$ 58,177</b>

The accompanying notes are an integral part of these financial statements.

# BAYLISS PUBLIC LIBRARY

## A COMPONENT UNIT OF THE CITY OF SAULT STE. MARIE, MICHIGAN

### STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

FOR YEAR ENDED JUNE 30, 2006

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts (Budgetary Basis)	Actual Over (Under) Final Budget
<b>Revenues</b>				
City appropriation	\$ 188,000	\$ 192,000	\$ 192,000	\$ -
Penal fines	192,051	204,381	204,381	-
Refunds and reimbursements	129,862	123,447	119,937	(3,510)
Charges for service	72,833	73,097	75,197	2,100
State sources	31,010	25,044	22,113	(2,931)
Interest	9,396	13,200	15,904	2,704
Donations	2,829	9,500	11,312	1,812
Operating grants	-	5,380	3,808	(1,572)
Other	3,792	3,308	6,999	3,691
<b>Total revenues</b>	<b>629,773</b>	<b>649,357</b>	<b>651,651</b>	<b>2,294</b>
<b>Expenditures</b>				
<b>Recreation and culture</b>				
Salaries and wages	426,228	413,327	373,649	(39,678)
Fringes	64,991	68,390	48,158	(20,232)
Supplies and materials	58,509	67,884	71,816	3,932
Printing and publishing	1,000	1,000	132	(868)
Postage	1,776	2,625	2,442	(183)
Maintenance supplies	1,865	1,700	683	(1,017)
Telephone	6,282	6,282	6,827	545
Travel	1,501	2,430	2,087	(343)
Professional development	1,955	2,500	3,438	938
Insurance	4,073	4,073	4,258	185
Electricity	9,996	10,000	11,159	1,159
Fuel	5,493	6,000	7,461	1,461
Water and sewer	997	1,100	1,271	171
Equipment repairs	316	2,500	2,775	275
Building maintenance	20,481	39,000	33,732	(5,268)
Contractual services	36,378	36,378	34,819	(1,559)
Capital outlay	2,656	2,656	376	(2,280)
Cooperative services	13,600	12,522	4,483	(8,039)
Centennial	-	-	(106)	(106)
Miscellaneous	1,575	4,817	9,776	4,959
<b>Total expenditures</b>	<b>659,672</b>	<b>685,184</b>	<b>619,236</b>	<b>(65,948)</b>
<b>Changes in fund balance</b>	<b>(29,899)</b>	<b>(35,827)</b>	<b>32,415</b>	<b>68,242</b>
Fund balance, beginning of year	518,064	518,064	518,064	-
<b>Fund balance, end of year</b>	<b>\$ 488,165</b>	<b>\$ 482,237</b>	<b>\$ 550,479</b>	<b>\$ 68,242</b>

The accompanying notes are an integral part of these financial statements.

## **NOTES TO THE FINANCIAL STATEMENTS**

**BAYLISS PUBLIC LIBRARY**  
**A COMPONENT UNIT OF THE CITY OF SAULT STE. MARIE**

**NOTES TO THE FINANCIAL STATEMENTS**

---

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The accounting policies of the *Bayliss Public Library*, a component unit of the City of Sault Ste. Marie, Michigan (the “Library”) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

In accordance with the provisions of the Governmental Accounting Standards Board Statement 14, and the Statement on Michigan Governmental Accounting and Auditing No. 5, certain other governmental organizations are not considered to be part of the Library entity for financial reporting purposes. The criteria established by GASB for determining the various governmental organizations to be included in the Library’s financial statements include oversight responsibility, scope of public service, and special financing relationships. On this basis, there are no other governmental organizations’ financial statements included in the financial statements of the Library.

**B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on the non-fiduciary activities of the Library. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The Library had no *business-type activities* during the year ended 2006.

**C. Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due.

**BAYLISS PUBLIC LIBRARY**  
**A COMPONENT UNIT OF THE CITY OF SAULT STE. MARIE**

**NOTES TO THE FINANCIAL STATEMENTS**

---

Interest associated with the current fiscal period is considered to be susceptible to accrual and has been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

The Library reports the following funds as major funds:

The *General Fund* is the Library's primary operating fund. It accounts for all financial resources of the Library.

The *Bayliss Trust and Seal Trust* are the Library's Permanent Funds. The principal portion of these funds must stay intact, but the interest earnings are used to provide for purposes defined by each trust.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the Library's policy to use restricted resources first, then unrestricted resources as they are needed.

**D. Assets, liabilities and equity**

**1. *Deposits and investments***

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Restricted investments, consisting of certificates of deposit restricted for Library maintenance and endowments, are reported at fair value.

**2. *Accounts Receivable***

All receivables are reported at their gross value.



**BAYLISS PUBLIC LIBRARY**  
**A COMPONENT UNIT OF THE CITY OF SAULT STE. MARIE**  
**NOTES TO THE FINANCIAL STATEMENTS**

---

**3. *Capital assets***

Capital assets, which include land and land improvements, furniture and equipment, building and improvements, and book collection, are reported in the governmental activities in the government-wide financial statements. Capital assets are defined by the Library as assets that are used in operations and have initial useful lives beyond a single reporting period. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are purchased or constructed. Capital assets of the Library are depreciated using the straight line method over the following estimated useful lives:

Land improvements	20 years
Furniture and equipment	5-7 years
Building and improvements	40 years
Book collection	5 years

**4. *Compensated absences***

It is the Library's policy to permit employees to accumulate earned but unused sick and vacation time benefits, subject to certain limitations. All sick and vacation time pay is accrued when incurred in the government-wide statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

**5. *Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**BAYLISS PUBLIC LIBRARY**  
**A COMPONENT UNIT OF THE CITY OF SAULT STE. MARIE**

**NOTES TO THE FINANCIAL STATEMENTS**

---

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary information**

The Library adopts an annual budget each year for expenditures applicable to the General Fund. The operating budget includes proposed expenditures and the means of financing them and is stated on a basis consistent with generally accepted accounting principles (GAAP). Budgets lapse at fiscal year end.

**B. Excess of expenditures over appropriations**

Expenditures in excess of budgeted amounts at the legal level of control are disclosed in the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund.

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

Following is a summary of deposit and investment balances as of June 30, 2006:

Cash and cash equivalents	\$ 459,633
Investments	113,529
Restricted investments	<u>159,923</u>
<b>Total</b>	<b><u>\$ 733,085</u></b>

<b>Bank deposits (checking accounts, savings accounts and CDs)</b>	<b><u>\$ 733,085</u></b>
--	--------------------------

At year end, the carrying amount of the Library's deposits was \$733,085. The bank balance of these deposits was \$747,954, of which \$293,710 was uninsured and uncollateralized.

Michigan law authorizes the Library to deposit and invest in:

- (a) Bonds, securities, and other obligations of the United States of America or an agency or instrumentality of the United States of America.
- (b) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State of Michigan under a law or rule of this State or the United States of America.

**BAYLISS PUBLIC LIBRARY**  
**A COMPONENT UNIT OF THE CITY OF SAULT STE. MARIE**

**NOTES TO THE FINANCIAL STATEMENTS**

- (c) Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- (d) Repurchase agreements consisting of instruments listed in (a) above and Bankers' acceptances of United States of America banks.
- (e) Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- (f) Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 USC 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- (g) Obligations described in (a) through (f) above if purchased through an interlocal agreement under the Urban Corporation Act of 1967, 1967 (EX Sess) PA 7, MCL 124.501 to 124.512.
- (h) Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, 129.111 to 129.118.
- (i) The investment pools organized under the Local Government Investment Pool Act, 1985, PA 121, MCL 129.141 to 129.150.

**B. Capital assets**

Capital assets activity was as follows for the year ended June 30, 2006:

	<u>July 1, 2005</u>	<u>Additions</u>	<u>(Deletions)</u>	<u>June 30, 2006</u>
<b>Capital assets not being depreciated</b>				
Land	<u>\$ 22,822</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,822</u>
<b>Capital assets being depreciated</b>				
Land improvements	\$ 15,250	\$ -	\$ -	\$ 15,250
Furniture and equipment	168,401	4,556	-	172,957
Building and improvements	474,260	943	-	475,203
Book collection	<u>269,328</u>	<u>54,140</u>	<u>-</u>	<u>323,468</u>
<b>Subtotal</b>	<u><b>927,239</b></u>	<u><b>59,639</b></u>	<u><b>-</b></u>	<u><b>986,878</b></u>

**BAYLISS PUBLIC LIBRARY**  
**A COMPONENT UNIT OF THE CITY OF SAULT STE. MARIE**

**NOTES TO THE FINANCIAL STATEMENTS**

---

	<u>July 1, 2005</u>	<u>Additions</u>	<u>(Deletions)</u>	<u>June 30, 2006</u>
<b>Accumulated depreciation</b>				
Land improvements	\$ 15,250	\$ -	\$ -	\$ 15,250
Furniture and equipment	126,286	16,899	-	143,185
Building and improvements	349,767	11,968	-	361,735
Book collection	<u>215,761</u>	<u>9,545</u>	<u>-</u>	<u>225,306</u>
<b>Total accumulated depreciation</b>	<u><b>707,064</b></u>	<u><b>38,412</b></u>	<u><b>-</b></u>	<u><b>745,476</b></u>
<b>Capital assets being depreciated, net</b>	<u><b>220,175</b></u>	<u><b>21,227</b></u>	<u><b>-</b></u>	<u><b>241,402</b></u>
<b>Governmental activities capital assets, net</b>	<u><b>\$ 242,997</b></u>	<u><b>\$ 21,227</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 264,224</b></u>

Depreciation expense for the year ended June 30, 2006 of \$38,412 has been recorded with recreation and culture expenses.

**C. Compensated Absences**

Accumulated compensated absences activity was as follows for the year ended June 30, 2006:

	<u>Balance July 1 2005</u>	<u>Increases</u>	<u>Balance June 30, 2006</u>	<u>Due Within One Year</u>
<b>Accrued compensated absences</b>	<u><b>\$ 19,641</b></u>	<u><b>\$ 539</b></u>	<u><b>\$ 20,180</b></u>	<u><b>\$ -</b></u>

**BAYLISS PUBLIC LIBRARY**  
**A COMPONENT UNIT OF THE CITY OF SAULT STE. MARIE**

**NOTES TO THE FINANCIAL STATEMENTS**

---

**IV. OTHER INFORMATION**

**A. Defined benefit pension plan**

**Plan Description**

The Library's defined benefit pension plan provides retirement, death and disability benefits to plan members and beneficiaries. The Library participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

**Funding Policy**

The Library is required to contribute at an actuarially determined rate. The Library is currently required to make no contributions to the Plan. Library employees are also currently not required to make contributions. The contribution requirements of the Library are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the Library, depending on the MERS contribution program adopted by the Library.

**Annual Pension Cost**

The required contribution was determined using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8%, (b) additional projected salary increases up to 4.2% per year, depending on age, attributable to seniority/merit, and (c) an inflationary rate of 4.5%. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Library's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2004, the date of the last actuarial valuation, was 30 years.

**BAYLISS PUBLIC LIBRARY**  
**A COMPONENT UNIT OF THE CITY OF SAULT STE. MARIE**

**NOTES TO THE FINANCIAL STATEMENTS**

**Three-Year Trend Information**

<b><u>Fiscal Year Ending</u></b>	<b><u>Annual Pension Cost (APC)</u></b>	<b><u>Percentage of APC Contributed</u></b>	<b><u>Net Pension Obligation</u></b>
6/30/04	-	0%	-
6/30/05	-	0%	-
6/30/06	-	0%	-

**Schedule of Funding Progress**

<b><u>Actuarial Valuation Date</u></b>	<b><u>Actuarial Value of Assets (a)</u></b>	<b><u>Actuarial Accrued Liability (AAL) -Entry Age (b)</u></b>	<b><u>Over- funded AAL (UAAL) (b-a)</u></b>	<b><u>Funded Ratio (a/b)</u></b>	<b><u>Covered Payroll (c)</u></b>	<b><u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u></b>
12/31/00	\$ 977,093	\$ 734,984	\$ 242,108	132%	\$ 165,026	0%
12/31/01	1,022,077	769,629	252,448	133%	173,026	0%
12/31/02	1,017,843	812,901	204,942	125%	150,842	0%
12/31/03	986,076	553,784	432,292	178%	140,820	0%
12/31/04	1,026,782	522,890	503,892	196%	184,224	0%
12/31/05	1,067,818	566,224	501,594	189%	198,525	0%

**B. B. Commitments and Contingencies**

The Library receives financial assistance from state agencies in the form of grants. The disbursement of funds from the various programs generally requires compliance with terms and conditions specified in the applicable grant agreement and is subject to examination by the grantor agency. Any disallowed claims resulting from such examination could become a liability of the Library.

**C. Risk Management**

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The Library continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

\*\*\*\*\*

## **SUPPLEMENTARY INFORMATION**

**BAYLISS PUBLIC LIBRARY**  
**A COMPONENT UNIT OF THE**  
**CITY OF SAULT STE. MARIE, MICHIGAN**

**BALANCE SHEET BY OPERATIONS**  
**GENERAL FUND**

**JUNE 30, 2006**

	<b>General Operations</b>	<b>Branch Operations</b>	<b>Total</b>
<b>ASSETS</b>			
<b>Assets</b>			
Cash and cash equivalents	\$ 271,556	\$ 188,077	\$ 459,633
Investments	62,431	51,098	113,529
Accounts receivable	4,088	10,022	14,110
Due from other governmental units	11,098	-	11,098
Due from other funds	22,608	-	22,608
Prepaid expenditures	303	-	303
<b>Total assets</b>	<b><u>\$ 372,084</u></b>	<b><u>\$ 249,197</u></b>	<b><u>\$ 621,281</u></b>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>Liabilities</b>			
Accounts payable	\$ 47,930	\$ 264	\$ 48,194
Due to other funds	-	22,609	22,609
<b>Total liabilities</b>	<b><u>47,930</u></b>	<b><u>22,873</u></b>	<b><u>70,803</u></b>
<b>Fund balance</b>			
Fund balance			
Unreserved and undesignated	324,154	226,324	550,478
<b>Total liabilities and fund balance</b>	<b><u>\$ 372,084</u></b>	<b><u>\$ 249,197</u></b>	<b><u>\$ 621,281</u></b>



**BAYLISS PUBLIC LIBRARY****A COMPONENT UNIT OF THE  
CITY OF SAULT STE. MARIE, MICHIGAN****STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES - GENERAL FUND - BY OPERATION****FOR THE YEAR ENDED JUNE 30, 2006**

	<b>General Operations</b>	<b>Branch Operations</b>	<b>Total</b>
<b>Revenues</b>			
City appropriations	\$ 192,000	\$ -	\$ 192,000
Penal fines	134,330	70,051	204,381
Refunds and reimbursements	119,387	550	119,937
Charges for service	33,153	42,044	75,197
State sources	22,113	-	22,113
Interest	6,809	9,095	15,904
Donations	11,312	-	11,312
Operating grants	3,808	-	3,808
Other	6,999	-	6,999
<b>Total revenues</b>	<b>529,911</b>	<b>121,740</b>	<b>651,651</b>
<b>Expenditures</b>			
<b>Recreational and culture</b>	<b>504,938</b>	<b>114,299</b>	<b>619,237</b>
<b>Changes in fund balance</b>	24,973	7,441	32,414
Fund balance, beginning of year	299,181	218,883	518,064
<b>Fund balance, end of year</b>	<b>\$ 324,154</b>	<b>\$ 226,324</b>	<b>\$ 550,478</b>

# BAYLISS PUBLIC LIBRARY

## A COMPONENT UNIT OF THE CITY OF SAULT STE. MARIE, MICHIGAN

### SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND GENERAL OPERATIONS

FOR YEAR ENDED JUNE 30, 2006

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts (Budgetary Basis)	Actual Over (Under) Final Budget
<b>Revenues</b>				
City appropriation	\$ 188,000	\$ 192,000	\$ 192,000	\$ -
Penal fines	122,000	134,330	134,330	-
Refunds and reimbursements	129,562	123,147	119,387	(3,760)
Charges for service	30,789	31,053	33,153	2,100
State sources	31,010	25,044	22,113	(2,931)
Interest	6,396	10,200	6,809	(3,391)
Donations	2,829	9,500	11,312	1,812
Operating grants	-	5,380	3,808	(1,572)
Other	3,792	3,308	6,999	3,691
<b>Total revenues</b>	<b>514,378</b>	<b>533,962</b>	<b>529,911</b>	<b>(4,051)</b>
<b>Expenditures</b>				
<b>Recreation and culture</b>				
Salaries and wages	349,732	336,831	301,175	(35,656)
Fringes	60,106	63,505	43,635	(19,870)
Supplies and materials	36,579	45,954	46,497	543
Printing and publishing	1,000	1,000	132	(868)
Postage	1,051	1,900	1,606	(294)
Maintenance supplies	1,865	1,700	683	(1,017)
Telephone	2,834	2,834	3,514	680
Travel	771	1,700	1,508	(192)
Professional development	1,155	1,700	3,363	1,663
Insurance	4,073	4,073	4,258	185
Electricity	9,996	10,000	11,159	1,159
Fuel	5,493	6,000	7,461	1,461
Water and sewer	997	1,100	1,271	171
Equipment repairs	316	2,500	2,775	275
Building maintenance	20,481	39,000	33,732	(5,268)
Contractual services	30,378	30,378	29,204	(1,174)
Capital outlay	750	750	376	(374)
Cooperative services	13,600	12,522	4,483	(8,039)
Centennial	-	-	(106)	(106)
Miscellaneous	1,350	4,592	8,212	3,620
<b>Total expenditures</b>	<b>542,527</b>	<b>568,039</b>	<b>504,938</b>	<b>(63,101)</b>
<b>Changes in fund balance</b>	<b>(28,149)</b>	<b>(34,077)</b>	<b>24,973</b>	<b>59,050</b>
Fund balance, beginning of year	299,181	299,181	299,181	-
<b>Fund balance, end of year</b>	<b>\$ 271,032</b>	<b>\$ 265,104</b>	<b>\$ 324,154</b>	<b>\$ 59,050</b>

# BAYLISS PUBLIC LIBRARY

## A COMPONENT UNIT OF THE CITY OF SAULT STE. MARIE, MICHIGAN

### SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND BRANCH OPERATIONS

FOR YEAR ENDED JUNE 30, 2006

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts (Budgetary Basis)	Actual Over (Under) Final Budget
<b>Revenues</b>				
Refunds and reimbursements	\$ 300	\$ 300	\$ 550	\$ 250
Penal fines	70,051	70,051	70,051	-
Charges for service	42,044	42,044	42,044	-
Interest	3,000	3,000	9,095	6,095
<b>Total revenues</b>	<b>115,395</b>	<b>115,395</b>	<b>121,740</b>	<b>6,345</b>
<b>Expenditures</b>				
<b>Recreation and culture</b>				
Salaries and wages	76,496	76,496	72,474	(4,022)
Fringes	4,885	4,885	4,523	(362)
Supplies and materials	21,930	21,930	25,319	3,389
Postage	725	725	836	111
Telephone	3,448	3,448	3,313	(135)
Travel	730	730	579	(151)
Professional development	800	800	75	(725)
Contractual services	6,000	6,000	5,615	(385)
Capital outlay	1,906	1,906	-	(1,906)
Miscellaneous	225	225	1,565	1,340
<b>Total expenditures</b>	<b>117,145</b>	<b>117,145</b>	<b>114,299</b>	<b>(2,846)</b>
<b>Changes in fund balance</b>	<b>(1,750)</b>	<b>(1,750)</b>	<b>7,441</b>	<b>9,191</b>
Fund balance, beginning of year	218,883	218,883	218,883	-
<b>Fund balance, end of year</b>	<b>\$ 217,133</b>	<b>\$ 217,133</b>	<b>\$ 226,324</b>	<b>\$ 9,191</b>



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

September 8, 2006

Board of Trustees  
Bayliss Public Library  
Sault Ste. Marie, Michigan

We have audited the financial statements of the governmental activities and each major fund of **Bayliss Public Library** (the "Library"), a component unit of the City of Sault Ste. Marie, as of and for the year ended June 30, 2006, which collectively comprise the Library's basic financial statements, and have issued our report thereon dated September 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Library's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Library in a separate letter dated September 8, 2006.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, management, others within the organization, and the City Commission and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, stylized 'L' at the beginning.



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

September 8, 2006

Board of Directors  
Bayliss Public Library  
Sault Ste. Marie, Michigan

Through our role in performing financial statement services, we have become familiar with your systems, operations and management team. As we work with our clients, we strive to provide direction and constructive feedback to help facilitate their success. The better we get to know you and your objectives, the more we can offer in terms of proactive advice.

In planning and performing our audit of the financial statements of the **Bayliss Public Library** (the "Library") for the year ended June 30, 2006, we considered the Library's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

The memorandum that accompanies this letter summarizes comments related to internal controls and financial reporting responsibilities of the Library. This letter does not affect our report dated September 8, 2006 on the financial statements of the Library.

We have already discussed these comments with the management, and we would be pleased to discuss them in further detail at your convenience.

Best wishes for a successful 2006-2007.

**BAYLISS PUBLIC LIBRARY**  
**COMMENTS AND RECOMMENDATIONS**  
**JUNE 30, 2006**

---

**Bayliss Library Cash Accounts**

During the performance of the audit procedures related to the Bayliss Public Library in 2004, we noted that bank accounts being used for branch operations at the remote locations were not recorded in the records of Bayliss Public Library. There were six bank accounts at the five branch locations with balances totaling approximately \$13,000 which have not historically been recorded in the Bayliss Library records. Per discussion with management and review of the bank statements related to these accounts, it was noted that three of the five bank accounts were opened using the social security number of the person opening the account. Further, there was some confusion regarding the purpose and ownership of these accounts.

We noted during procedures performed related to the 2005 audit that no progress had been made regarding the fiscal responsibility of the above referenced accounts. Per management, discussions have been held with certain branches in an effort to determine who should have ownership of the accounts and how that responsibility should be defined.

During procedures performed related to the 2006 audit we noted that action had been taken on the above referenced accounts. The Library determined that they should be fiscally responsible and accordingly, closed the branch accounts that were opened using the social security number of the person opening the account and reopened those accounts using the Federal Identification Number for the City of Sault Ste. Marie.

Since the Library has assumed the fiscal responsibility for these accounts we are recommending that additional internal controls be established to help safeguard these assets. We recognize that each branch is too small to implement proper segregation of duties however one control that could be established with little effort is to have each branch bank statement mailed directly to the bookkeeper at Bayliss Public Library who would then perform the related bank reconciliation. This would relieve the individual branches of this responsibility and add the security of an employee that has no authority on these accounts performing the reconciliation. Since this would require each branch to fax their check register to the Bookkeeper, upon reconciling each bank the Library may become aware of improper activity. In addition, the Library may request that the cancelled checks be returned with the bank statement. While several financial institutions have stopped returning cancelled checks, some banks will still return them to their customer's with no fee if it is requested.

During the audit we also noted that there is only one authorized employee on each account. Since these accounts are now opened under the City of Sault Ste. Marie's Federal Identification Number another individual, such as John Boger or a Library Board Member should be added to the account. While this other person would be an authorized signer, you would not have to change the account to require dual signatures. This would simply allow another individual to make inquiries on behalf of the Library or access the funds if needed.

Upon review of the returned bank confirmations, we identified two bank accounts held at Soo Co-Op Credit Union that belong to the Friends of Bayliss and were opened using the City of Sault Ste. Marie's Federal Identification Number. As with the branch bank accounts, the Library should determine who is fiscally responsible for these accounts. If it is determined that the Library is fiscally responsible, these accounts should be reported in the records of the Library. However, if the Friends of Bayliss is an established non-profit organization through the filing of a 501(c)3, then the accounts should be closed and reopened under the Federal Identification Number assigned to the Friends of Bayliss.

### **Expenditures**

In order to keep the Library's management informed regarding State of Michigan regulations, we present below a list of examples of illegal or unauthorized expenditures as defined in the Bulletin for Audits of Local Units of Government in Michigan as revised (Appendix H). We recommend that the Library's management familiarize themselves with this list in order to prevent the potential for illegal or unauthorized expenditures of the Library's funds.

- Contributions to churches, veterans, nonprofit organizations.
- Payment of funeral expenses for a person injured on government property.
- Donations to a private ambulance or EMS service not under contract with the governmental unit.
- Donations, including use of property or equipment to Little League, Scouts, Big Brothers/Sisters.
- Donations to community organizations.
- Expenses for private road constructions or maintenance.
- Office refreshments, picnics.
- Presents to officials and employees or retirement recognition events.
- Flowers to the sick or departed.
- Mileage of officials and employees to and from their residence to the City Hall.
- Extra compensation for summer tax collections unless part of the initial salary resolution or authorized with statutory procedures for an increase in salary.
- Extra compensation for special elections unless part of initial salary resolution or authorized under statutory procedures for an increase in salary.

In addition the Library should enforce a travel reimbursement policy that would exclude unnecessary amenities that are charged through hotel invoices and set limits on the amount allowable to be reimbursed for meals.

### **Conclusion**

It has been a pleasure to provide audit services to ***Bayliss Public Library***. Management was prepared for the audit, providing us with all supporting documents requested. Management was friendly, conscientious and very helpful.

We appreciate your business! Thank you.